

Does integrity matter for CSR practice in organizations?

The mediating role of transformational leadership

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Scholars have long debated whether leader's integrity affects managerial decision making with respect to social responsibility. In this paper, we propose a model in which transformational leadership mediates integrity and corporate social responsibility (CSR) and examine the relationship between these concepts. A survey of 170 senior managers from 50 organizations was conducted. Results indicate that integrity is a predictor of transformational leadership behavior and that transformational leaders' behaviors are linked to CSR practices. It was also found that leaders rated with higher integrity are engaged in CSR because they exhibit more transformational leadership behaviors. These findings add to the extant literature by demonstrating that integrity is important as transformational leaders engage more actively on 'responsible' behaviors. Practical implications call for an understanding among corporate leaders of the benefits of integrity and how it relates to transformational leadership. Organizations can improve their selection and leadership development processes by focusing on these two dimensions.

Introduction

Organizations face an increasing challenge to develop socially responsible practices as part of their strategic choices and operations in order to meet key stakeholder expectations (Moon *et al.* 2005, McWilliams *et al.* 2006, Siegel & Vitaliano 2007, Matten & Moon 2008, Siegel 2009). An emergent assumption in corporate social responsibility (CSR) literature is that these socially responsible practices that appear to further some social good, beyond the interests of the firm and that which is required by law, may contribute to the firm's competitive advantage (McWilliams & Siegel 2001, Hammann *et al.* 2009). Therefore, a recent trend in CSR research begun to focus on the role of leadership in selecting and implementing such organizational practices

(Angus-Leppan *et al.* 2010). However, the underlying mechanisms that connect leaders' integrity to the organizational orientation to CSR practices remains understudied (Waldman & Siegel 2008).

The role of leaders' integrity is relevant given that the recent collapses of corporations such as Enron, Arthur Andersen, WorldCom, and Lehman Brothers were attributed to weaknesses in human nature, particularly selfishness and unethical behavior (Blair 2002, Bratton 2002, Jensen 2008). Management behaviors such as these have led to dramatic consequences and raised many discussions among practitioners and in the academic literature. For example, Siegel (Waldman & Siegel 2008: 126) is convinced that 'it is not morality or ethics that drive managerial decision-making with respect to social responsibility' but rather 'the obligation managers have to deploy

the resources as effectively as possible, based on instrumental thinking, in order to maximize the wealth of the firm'. On the other hand, Waldman argues that 'evidence is beginning to emerge regarding the favorability of leader values stressing integrity and the concern for multiple stakeholder groups' (Waldman & Siegel 2008: 129).

This recent interest in leadership as a central construct to explain organizational CSR practices has produced some interesting findings. For example, Waldman *et al.* (2006b) found visionary leadership to be associated with certain managerial values that managers often apply in their decision-making processes relevant to CSR. These values go beyond the legal requirements of the firm and are framed in three key dimensions: shareholder – values reflecting duties to maximize economic returns; stakeholder – ethical values and positive relations toward employees, consumer groups, and other constituents; and community welfare – values relevant to a larger societal entity. Angus-Leppan *et al.* (2010) found that autocratic leadership is more closely aligned with process-based forms of CSR, like reporting on organizational values, whereas authentic leadership is more aligned with values-based or implicit forms of CSR, like reference to expressed personal values, and ethical issues. Also, distributed leadership has been found to be relevant to the public relations in terms of CSR (Benn *et al.* 2010).

From the whole plethora of leadership approaches, especially the ones that have emerged since the 1980s (e.g. Bryman 1992, Northouse 2010), transformational leadership appears to be of particular importance to explain the linkage between integrity and CSR practices. Previous research has highlighted a moral dimension and emphasized the association of transformational leadership with organizational change pursuing a common purpose and societal well-being (Burns 1978, Avolio *et al.* 1999, Bass & Riggio 2006). Other studies have described key transformational leadership behaviors that are vital to CSR practices, such as for example the inspirational and intellectual stimulant components (Waldman *et al.* 2006a, Angus-Leppan & Benn 2007, Waddock & Bodwell 2007).

The current study brings together transformational leadership theory with the increasing interest in CSR, thereby examining how transformational

leaders who demonstrate high levels of integrity may become potential drivers of CSR policies. Thus, this study proposes a model where transformational leadership mediates the relationship between integrity and CSR, examining the relationship between these concepts, and contributes to leadership theory in a number of ways. First, despite the vast number of studies on transformational leadership, most of this research has focused on outcomes such as team and organizational performance (e.g. Seltzer & Bass 1990, Mackenzie *et al.* 2001, Wofford *et al.* 2001, Jung & Sosik 2002). Here, we propose integrity as an antecedent of transformational leadership behaviors. Second, this study provides empirical evidence that supports the linkage between transformational leadership and CSR. Third, this study addresses an empirical gap for evidence of the connection between a leader's integrity and CSR by presenting a model in which transformational leadership mediates these two concepts. Therefore, in examining the mediating role of transformational leadership, our analysis found that leaders rated with higher integrity are engaged in CSR practices because they exhibit more transformational leadership behaviors.

This paper is organized as follows. First, we begin with a brief review of the relevant literature, providing a discussion that weaves together leadership, integrity, and CSR. This literature review also describes and motivates the three hypotheses examined: (1) leaders' integrity is positively associated with transformational leadership; (2) transformational leadership is positively associated with CSR; and (3) transformational leadership mediates the relationship between leaders' integrity and CSR. We then describe the empirical study that forms the basis of our quantitative analysis. Next, we examine and discuss our findings in light of the theoretical framework considered. The final section presents preliminary conclusions, reemphasizes the theoretical contributions, draws practical implications, and proposes future research areas.

Integrity and transformational leadership

Integrity is often discussed in the leadership literature as a normative principle, focusing on how leaders ought to behave (e.g. Bass & Steidlmeier

1999, May *et al.* 2003, Ciulla 2005, Rawls 2005). Other perspectives have emerged describing the characteristics of ethical leaders based on social learning and authentic leadership approaches (e.g. Avolio *et al.* 2004a, Brown *et al.* 2005, Brown & Trevino 2006). In general, there is little agreement about the definition and conceptualization of integrity in the leadership literature, and many of the definitions of integrity overlap with other concepts such as honesty, ethics, morality, justice, and authenticity. Recently, Palanski & Yammarino (2007) made an important contribution to the field presenting a comprehensive review of the different definitions and conceptualizations of integrity used in the leadership literature. These definitions were classified into five general categories of integrity: wholeness, consistency of words and actions, consistency in adversity, being true to one-self, and moral/ethical behavior.

In this study, we endorse the definition of integrity as moral or ethical behavior. Craig & Gustafson (1998) suggest a rule-based utilitarian approach consistent with the way modern Western civilizations articulate their laws and behavioral norms. According to this approach, an act could be labeled unethical if it violates explicit or implicit universal rules and produces detrimental outcomes for others. For example, a leader perceived by their followers as someone who behaves deliberately to violate organizational policies jeopardizing the corporate reputation is acting unethically. Based on this approach, integrity as moral or ethical behavior has been proposed by several authors and operationalized as the absence of unethical behavior (e.g. Craig & Gustafson 1998, Posner 2001, Parry & Proctor-Thomson 2002, Mumford *et al.* 2003). In the literature, concepts like 'ethics' and 'morality' usually refer to actions that are in accordance with socially acceptable behavior (Palanski & Yammarino 2007). For example, a person with highest integrity is a highly moral and ethical person (Palanski & Yammarino 2007). Therefore, we consider in this study the follower's perceptions of unethical leader behaviors to measure leader integrity.

In recent years, integrity has come to be seen as a critical component of leadership; however, a full understanding of how integrity and leadership are interrelated is still emerging in the leadership literature (Palanski & Yammarino 2009). For example,

new approaches in leadership research examine the role integrity plays in ethical leadership (e.g. Brown *et al.* 2005, Brown & Trevino 2006), authentic leadership (e.g. Luthans & Avolio 2003, Avolio *et al.* 2004a), spiritual leadership (Fry 2003), and transformational leadership (e.g. Burns 1978, Bass 1985, Bass & Steidlmeier 1999). These studies share some similarities in terms of their conceptual approaches and models (Brown & Trevino 2006). All these approaches focus on altruism, integrity, and role-modeling behaviors; however, there are key differences among them. Ethical leaders emphasize ethical standards and moral management, authentic leaders focus on authenticity and self-awareness, and spiritual leaders underscore vision, hope and faith, and work as a vocation. Finally, transformational leaders are characterized by their emphasis on vision, values, and intellectual stimulation. Space does not permit a comprehensive review of the aforementioned leadership theories. Instead, we focus our discussion on the controversial role integrity plays in transformational leadership (see Bass & Steidlmeier 1999 for a discussion of truly vs. pseudo-transformational leadership) because this particular connection has not yet received systematic empirical support in the literature.

Transformational leadership was first introduced by Burns (1978) and further developed by Bass and others (e.g. Bass 1985, Bass *et al.* 1987, 2003, Bass & Avolio 1990, Avolio *et al.* 1999), who created a conceptual framework for leadership development. A transformational leader is one who inspires followers to do more than originally expected by (1) raising their level of awareness about the importance and value of designated outcomes and methods of achieving these outcomes; (2) motivating them to transcend their own self-interest for the sake of the team, organization, or larger community; and ultimately (3) expanding their portfolio of needs and wants (Bass 1985). Transformational leadership is thus characterized along four dimensions: (1) idealized influence/charisma occurs when leaders inspire their coworkers with a vision of what can be accomplished with extra personal effort; (2) inspirational motivation reflects leaders' visions of what is right and important, including how to achieve those goals by promoting positive expectations about what needs to be accomplished; (3) intellectual stimulation

occurs when leaders develop their followers' capacities to solve future problems by enhancing their creativity and innovation; and (4) individualized consideration represents leaders' abilities to not only recognize and satisfy followers' immediate needs but also expand and elevate those needs over time in order to develop followers' full potential by providing coaching and empowering them to become potential leaders (Bass & Avolio 2008).

Transformational leadership theory highlights a moral dimension whereby leaders inspire followers to adjust their value systems to look beyond self-interest and work together for a common purpose, thereby creating and spreading an ethical climate throughout the organization (Bass & Avolio 1993, Avolio *et al.* 1999, Bass & Steidlmeier 1999, van Aswegen & Engelbrecht 2009). Researchers have argued that transformational leadership is necessarily linked to individuals' moral development and high ethical standards. For example, this connection is made salient when leaders use self-chosen universal ethical principles to solve dilemmas that serve the common good, thereby carefully balancing the interests of all concerned while simultaneously acting in accordance with their moral principles in decision-making processes (Graham 1995). A small number of studies have provided empirical evidence to support this perspective. For example, Turner *et al.* (2002) found that managers scoring in the highest group of the moral-reasoning distribution exhibited more transformational leadership behaviors than leaders scoring in the lowest group. Parry & Proctor-Thomson (2002) found a moderate to strong positive relation between perceived integrity of New Zealand managers and transformational leadership. More recently, Engelbrecht *et al.* (2005) found that integrity significantly predicted transformational leadership in the South African business context. In the light of this information, we propose the following hypothesis:

Hypothesis 1: *The level of leaders' integrity is positively associated with transformational leadership.*

Transformational leadership and CSR

Leadership affects different aspects of an organization, including the flow of information, internal rules

and procedures, and the bases of power, all of which also influence strategic planning for the organization (Waldman *et al.* 2001, 2004, Bass & Riggio 2006). In order to contextualize decision-making processes, it is important to understand top managers' backgrounds, experiences, values, and world-views, particularly regarding CSR (Hambrick & Mason 1984, Finkelstein & Hambrick 1990, Waldman & Siegel 2008). Previous scholarship has emphasized the link between transformational leadership and organizational change (Burns 1978, Bass 1985, Bass & Riggio 2006). Transformational leaders serve as role models and encourage followers to identify with the leader's vision for the organization (Bass *et al.* 1987, Bass & Avolio 2008). Through this process, transformational leaders align individual needs and values with the collective goals of the organization, positively influence followers' attitudes and behaviors, improve job satisfaction, increase commitment to the organization, and increase performance levels (e.g. Kark & Shamir 2002, Bass *et al.* 2003, Berson & Avolio 2004, Judge & Piccolo 2004).

Defining CSR is no easy task because of different underlying meanings and disparate organizational practices among countries (Matten & Moon 2008). In this study, we use the definition often found in the literature that CSR is a set of initiatives in the organization that appear to contribute to the promotion of social good by broadening the goals of key stakeholder groups beyond compliance with existing rules and regulations (e.g. McWilliams & Siegel 2000, 2001, Waldman *et al.* 2006a, Waldman & Siegel 2008). The notion of social good is an umbrella term capturing the 'triple bottom line', that is the three pillars of CSR and sustainable development: economic, social, and environmental, as categorized by Elkington (1997).

This study builds on recent research by shifting away from implicit CSR (associated with values, norms, and rules) toward explicit CSR (associated with corporate strategic decisions) according to Matten & Moon's classification (2008), in order to examine whether transformational leaders are more likely to integrate CSR in their strategic decisions. In this paper, we therefore focus on CSR practices at the strategic level that are related to the firm's competitive strategy, such as the introduction of systems to improve performance, the implementation of

environmental management systems and reporting, and the contribution to employees' quality of life and community involvement, just to name a few. These CSR practices may generate positive outcomes in terms of corporate image and reputation as a socially responsible firm, especially toward institutional investors, customers, and suppliers, with consequent positive effects in market performance, access to capital markets, and profit (McWilliams & Siegel 2001, Waldman *et al.* 2006a, Adam & Shavit 2008).

Previous research has suggested key transformational leadership behaviors that are vital to CSR practices, including visionary leadership (Maak & Pless 2006, Waldman *et al.* 2006b, de Luque *et al.* 2008, Waldman & Siegel 2008), inspirational leadership (Angus-Leppan & Benn 2007, Waddock & Bodwell 2007), and intellectual stimulant leadership (Waldman *et al.* 2006a). Studies have explored the notion that transformational leaders enhance followers' prosocial or extra-role behaviors by inspiring them to look beyond self-interest and underscoring the necessity of altruism to pursue a common goal (Bass & Steidlmeier 1999). Podsakoff *et al.* (1990) examined the impact of transformational leadership on organizational citizenship behaviors (OCBs), concluding that effects are indirect rather than direct because they are mediated by followers' trust in their leaders. Similarly, other authors found support for an indirect effect of transformational leadership on OCBs because of the mediating effects of procedural justice and trust (Pillai *et al.* 1999, Engelbrecht & Chamberlain 2005). Other studies have found that transformational leadership behaviors are significantly and positively associated with altruism, courtesy, conscientiousness, sportsmanship, and civic virtue (Podsakoff *et al.* 2000).

A significant study by de Luque *et al.* (2008) examined 500 CEOs and organizations from 17 countries on five continents. Results showed that CEOs with strong economic values – that is, those who gave priority to profits, cost control, and market maintenance – were viewed by followers as highly authoritarian, not as visionary. Meanwhile, CEOs with strong stakeholder values – those who gave deference to employee relations and development, customers, environmental concerns, and the welfare of the community – were viewed by followers as highly visionary, not as authoritarian. Moreover, CEOs with

strong stakeholder values were associated with organizations that were better performers in terms of current financial results and the extent to which followers displayed extra effort and made sacrifices. Thus, executives who consider multiple stakeholder groups in their decision making may actually yield better results for their organizations. Arguably, transformational leadership is well suited for today's complex work environments and organizations, where followers often seek a visionary leader to guide them through turbulent times, make them feel challenged as well as empowered, and inspire them to perform above expectations and develop prosocial behaviors when pursuing a common goal for the whole group (Bass & Riggio 2006). Given the findings of previous research discussed in this section, we underscore the idea that transformational leadership behavior affects an organization's orientation toward CSR. We therefore propose the following hypothesis:

Hypothesis 2: *Transformational leadership is positively associated with CSR.*

The mediating role of transformational leadership

Baron & Kenny (1986: 1176) define mediation as the function that a variable assumes when 'it accounts for the relation between the predictor and the criterion'. Basically, a mediator plays a dual role in a causal relationship. First, the mediator is the dependent variable for the predictor. Second, the mediator is the independent variable for the criterion.

In this study, we argue that transformational leadership mediates the relationship between integrity and CSR. In order for this proposition to be true, we revisit Baron & Kenny's (1986) three conditions. First, we examine if leaders' integrity (independent variable) significantly predicts transformational leadership (mediator). Several authors have studied the relationship between leadership and values, asserting that ethics are at the core of leadership (e.g. Selznick 1957, Ciulla 1995). Ciulla (2005) posits that business leaders' values have an impact in the organization as long as those values are linked to leaders' actions. When a leader thinks about how to broaden the

notion of what is possible for the organization, he or she displays a corresponding broad sense of moral obligation. For many researchers in this field, leadership style stems from leaders' individual personal value systems, including beliefs about notions such as equality, justice, and integrity (Bass 1985, Kuhnert & Lewis 1987, Bass & Avolio 1994). Transformational leaders rely on a set of moral assumptions and instill followers with moral inspiration by mobilizing and leading them to act purposefully (Burns 1978). In this way, moral values are the foundation upon which the transformational leader operates (Bass 1985, Kanungo & Mendonca, 1996, 1998, Kanungo 2001).

Second, we observe if leader's integrity is a predictor of CSR (dependent variable). According to stakeholder theory – which is often viewed as the dominant paradigm in CSR – managers must not only perceive ethics as a necessary ingredient in the strategic analysis of their values but also instill a moral purpose in employees (Freeman 1984). Senior management's moral sentiments are thus reflected in the organization's behavior toward stakeholders by showing mutual trust and cooperation (Jones 1995, Jones & Wicks 1999). The stakeholder approach places ethics at the core of CSR, linking the government of organizations to managers' formulation of strategies (e.g. Donaldson & Preston 1995, Agle *et al.* 1999, 2008, Phillips *et al.* 2003, Freeman *et al.* 2004, Harris & Freeman 2008). Other research has focused on decision-based value processes, showing that values operate at different levels of analysis to influence decision making (Williams 1979, Etzioni 1988, Swanson 1999). According to this perspective, responsibility and responsiveness involves the executive's normative orientation to social policy, suggesting that senior managers' personal values strongly influence their formulation of corporate social policy (Swanson 1999). For example, De Hoogh & Den Hartog (2008) found that leaders perceived as having a high level of social responsibility rated higher on ethical leadership and lower on despotic leadership. Others have illustrated personal traits related with ethical leadership and leaders' social responsibility, such as concern for others, reliability, courage and responsibility, moral standards of conduct, and ethical concern for consequences (e.g. Howell & Avolio 1992, Kanungo 2001, Brown *et al.* 2005). In turn, ethical leadership has been positively related to

senior management teams' perceived effectiveness and followers' optimism about the future of the organization (De Hoogh & Den Hartog 2008). Therefore, ethical leaders and their personal values may influence strategic CSR decisions (Swanson 1999, Waldman & Siegel 2008).

Third, we evaluate if transformational leadership significantly predicts CSR, after controlling for integrity. In this case, leaders with a high level of integrity engage in CSR strategies because their integrity enhances transformational leadership behaviors. The leader's moral values may emerge through the four transformational leadership dimensions, namely intellectual stimulation, idealized influence, inspirational motivation, and individualized consideration. For example, a leader who intellectually stimulates followers creates a supportive climate where followers can question their values, beliefs, and expectations, thus making their own decisions about right or wrong. The notion of idealized influence represents the dynamic where the leader demonstrates high ethical and moral standards and therefore becomes a respected and trusted role model for followers. Leaders with inspirational motivation behave in ways that motivate and inspire those around them by providing meaningful challenges and opportunities for growth. By showing individually consideration, leaders enable followers to make individual decisions about ethical issues without coercing them to follow a certain course of action (van Aswegen & Engelbrecht 2009).

In sum, ethical leaders may therefore use transformational leadership practices as a way to engage followers in virtuous acts and behaviors that benefit others, thus increasing their own social responsibility and propensity to follow CSR strategies. Thus, a leader's integrity can yield positive outcomes for the ethical climate of an organization and drive CSR strategies, particularly when the leader's transformational behaviors develop a collective sense of responsibility in pursuing a common purpose for the organization. Reflecting on the discussion above, we postulate that:

Hypothesis 3: *Transformational leadership mediates the relationship between leaders' integrity and CSR.*

Methods

Participants and procedures

Data were collected from managers reporting to CEOs of the 500 largest organizations in Portugal. The organizations were selected from the 2008 database published by *EXAME*, a leading Portuguese business and management magazine. These organizations were selected as potential participants as they are more likely to have already adopted CSR strategies. For example, some of these organizations are listed on the Euronext stock exchange and have faced increasing pressure from stakeholders to develop socially responsible practices. Investments in social responsibility performance may also influence an organization's corporate image and reputation, which are primary concerns for large organizations. In addition, increasing pressure from customers, employees, suppliers, community groups, and governments alike will probably have the greatest effect among the largest organizations.

An introductory letter with six questionnaires attached was sent by mail to human resource managers with guidelines on how to distribute and collect the questionnaires. Fifteen organizations were excluded from the study because of incorrect addresses, internal restructuring, or changes in CEOs. The survey ran from April to July 2009, with a total of 170 usable questionnaires being returned from 50 organizations (10.3% response rate). The respondents had an average job tenure of 3.3 years [standard deviation (SD) = 1.78] with the organization. Additionally, 68% were male, and participants were on average 43 years old (SD = 9.50). Data were diversified by industry, representing 19 of 24 possible industries. The most predominant respondent industries were services (20%), construction (10%), heavy equipment (8%), and telecommunications (8%). The CEO profile indicated that 94% of CEOs were male, 64% had between 1 and 5 years of tenure in their current position, and the average tenure was 5.63 years (SD = 5.63).

Respondents completed a questionnaire with five sections. The first section included a definition of the CEO, two items to classify the CEO in terms of tenure and gender, and 20 items to assess the CEO's perceived transformational leadership characteristics. The second section included 31 items to assess

the CEO's perceived integrity. The third section included 10 items measuring the organization's perceived orientation to CSR. The fourth section characterized the respondents' profile in terms of age, gender, job position, tenure, and hierarchical position in the organization. Finally, the fifth section asked for information on the organization's performance in terms of number of employees and total sales.

The scales used in the first three sections were based on constructs found in existing literature. The transformational leadership construct was operationalized with the Multifactor Leadership Questionnaire (MLQ) (Bass & Avolio 2008); the leaders' integrity with the Perceived Leadership Integrity Scale (PLIS) (Craig & Gustafson 1998); and the CSR with the Sustainability Progress Indicator Comparative Evaluation (SPICE) (Hemming *et al.* 2004). The questionnaire items used to assess transformational leadership characteristics were drawn from a translated version of the MLQ from English to Portuguese provided by Mind Garden, Inc. The PLIS and SPICE scales were translated by the researchers from English to Portuguese using the standard backward translations method; the translations were subsequently reviewed by two managers highly fluent in English in order to avoid ambiguous understandings by the respondents. A pretest of the questionnaire was then conducted with 10 senior managers from different organizations. The final questionnaire incorporated their comments and suggestions.

Measures

Transformational leadership

The MLQ (5x short form) was employed in this study, with permission from Mind Garden, Inc., to assess CEOs' transformational leadership. Since its inception in 1985, several researchers have used the MLQ to assess leadership qualities and test the main constructs associated with the model (e.g. Bycio *et al.* 1995, Carless 1998, Yukl 1999, Goodwin *et al.* 2001, Tejada *et al.* 2001, Antonakis *et al.* 2003). In these studies, the authors raise questions related to inadequate discriminant validity among the factors and the inability of the initial factor structure to be replicated in empirical research. A refinement of the

original scale was later introduced by Bass & Avolio (2008), and a more parsimonious model underlying MLQ was proposed. Twenty items from this latter version of the MLQ were used in the current study to assess CEOs' transformational leadership qualities. For each item, participants were asked to rate their CEO on a five-point scale, ranging from 'not at all' (= 0) to 'frequently, if not always' (= 4). Sample items for each of the four dimensions of transformational leadership include: (1) Idealized Influence 'Talks about his/her most important values and beliefs'; (2) Inspirational Motivation 'Talks enthusiastically about what needs to be accomplished'; (3) Individualized Consideration 'Treats me as an individual rather than just as a member of a group'; and (4) Intellectual Stimulation 'Seeks differing perspectives when solving problems'.

Bass & Avolio (2008), as well as Mind Garden, Inc., have collected samples from different countries, including Portugal (1620 raters and 180 leaders), to validate and cross-validate the MLQ scale. Therefore, we have not conducted any factor analysis on the 20 items of transformational leadership as these items have already been extensively reviewed (Bycio *et al.* 1995, Den Hartog *et al.* 1997, Lievens *et al.* 1997, Carless 1998, Avolio *et al.* 1999, Yukl 1999, Goodwin *et al.* 2001, Tejeda *et al.* 2001, Antonakis *et al.* 2003). The Cronbach's α of the transformational leadership construct was 0.96, which is in line with the reliability assessment provided by Bass & Avolio (2008).

Leaders' integrity

The PLIS, developed by Craig & Gustafson (1998), was used in this study to assess CEOs' integrity. PLIS has 31 items corresponding to unethical leader behavior that followers find easy to recognize and assess. This four-point Likert-type scale ranges from 'not at all' (= 1) to 'exactly' (= 4). Sample items from this scale are 'Would use my mistakes to attack me personally', 'Deliberately fuels conflict among employees', and 'Would lie to me'. The scale was inverted so that higher scores correspond to higher integrity.

Principal components analysis confirmed one-factor component with an eigenvalue of 17.59. The single factor explained 69.37% of total item variance,

and Cronbach's α for this overall measure was 0.97. This result was in line with the findings of Craig & Gustafson (1998) and Parry & Proctor-Thomson (2002). They also found evidence of a latent one-factor with internal high consistency.

Organizations' orientation to CSR

To assess the organizations' orientation to CSR, this study used SPICE, developed by Hemming *et al.* (2004). SPICE was previously used as a benchmarking tool to understand the sustainable development and CSR agenda of Jaguar Cars compared with other organizations considered to be leaders in this field. This methodology is based on the 'triple bottom line' concept (Elkington 1997), which combines economic development measures with environmental and social responsibility ones, although the focus has chiefly been on the last two dimensions, leaving the economic dimension largely unaddressed (Hemming *et al.* 2004).

Following a review of the existing literature, 10 main attributes – with individual scores ranging from 'not at all' (= 0) to 'excellent' (= 5) – were chosen: compliance management; environmental management systems; performance improvement; environmental and sustainability reporting; stakeholder dialog; product stewardship; supply chain management; eco-innovation; contribution to quality of life and community involvement; and employer of choice. Sample items are: (1) economic – 'Please rate your firms' progress in terms of product stewardship'; (2) environmental – 'Please rate your firms' progress in terms of environmental management systems'; and (3) social – 'Please rate your firms' progress in terms of contribution to quality of life and community involvement'.

Hemming *et al.* (2004) used this methodology in two studies conducted in 1999 and 2002, arguing that the scoring system – despite its subjectivity – is fairly robust and flexible. Principal components analysis confirmed a one-factor component with an eigenvalue of 5.9, explaining 70.2% of total item variance. The Cronbach's α for this measure was 0.92.

Control variables

Some variables were used to control their own influence on the organization's orientation to CSR,

Table 1: Industries in the sample

Industries	<i>n</i>	Mean	Min	Max	SD
Construction	18	3.75	2.00	4.90	0.683
Durable goods manufacturing	9	2.81	1.30	4.70	1.086
Nondurable goods manufacturing	21	4.35	1.30	5.00	0.782
Chemicals and pharmaceutical	18	3.83	2.20	5.00	0.766
Metal industries	7	3.94	2.50	5.00	0.940
Electronic equipment	11	4.24	3.60	4.80	0.372
Transportation equipment	13	4.03	3.10	5.00	0.550
Transportation services	8	4.31	2.80	5.00	0.664
Telecommunications	8	3.71	3.00	4.70	0.633
Wholesale and retail	24	3.53	1.60	4.70	0.765
Services	27	3.11	1.30	4.40	0.906

including size (measured as number of employees), risk (measured as debt ratio), profit (measured as return on equity; ROE), and CEO tenure and gender – all of which have been previously mentioned in the literature (Waddock & Graves 1997, McWilliams & Siegel 2000, Waldman *et al.* 2006a).

In addition, as earlier studies have shown that industry is likely to influence an organization's orientation to CSR, we included a set of industry dummy variables in the analysis (e.g. Waddock & Graves 1997, Waldman *et al.* 2006a). Each one of the firms in the sample was classified according to the two-digit Standard Industrial Classification (SIC) codes and grouped into 11 broad industry groups: (1) construction, (2) durable goods manufacturing, (3) nondurable goods manufacturing, (4) chemicals and pharmaceutical, (5) metal industries, (6) electronic equipment, (7) transportation equipment, (8) transportation services, (9) telecommunications, (10) wholesale and retail, and (11) services. Table 1 shows descriptive statistics for each of the industries.

Analytical procedures

This study considers transformational leadership as a group-level variable because we were interested in the relationship between the perceived behaviors of CEOs to the subordinate raters as a whole. This is

supported by many authors (e.g. Shamir *et al.* 1998, Jung & Sosik 2002, Bono & Judge 2003, Kark *et al.* 2003, Avolio *et al.* 2004b) who have suggested that leaders often behave in a way that is not directed to a single individual but toward a group as a whole, as a way to influence the group to achieve a common goal. Although we were interested in transformational leadership at the group level, other variables, such as integrity and CSR, were analyzed at the individual level, following the suggestions of previous research (Craig & Gustafson 1998, Parry & Proctor-Thomson 2002, Hemming *et al.* 2004, Waldman & Siegel 2008).

We followed Baron & Kenny's (1986) and Krull & MacKinnon's (1999, 2001) recommended four-step procedure to test the full mediation effects of transformational leadership. First, the independent variable (integrity) needs to significantly predict the mediator (transformational leadership). Second, the independent variable needs to significantly predict the dependent variable (CSR). Third, the mediator needs to significantly predict the dependent variable. Finally, the relationship between integrity and CSR must disappear when transformational leadership is introduced into the regression equation predicting CSR.

Regression analysis was conducted to examine the effects of the independent variable integrity and the mediator variable transformational leadership on CSR after introducing the control variables (Waddock & Graves 1997, McWilliams & Siegel 2000, Waldman *et al.* 2006a). Measures of profit, organization size, risk, CEO tenure, and gender, as well as the industry dummy variables were included as control variables in the regression models.

Results

Aggregation analysis

The use of aggregation analysis in transformational leadership research is fairly common (e.g. Jung & Sosik 2002, Bono & Judge 2003, Avolio *et al.* 2004b). To assess the viability of aggregating transformational leadership, both within-group agreement indexes (James *et al.* 1984, 1993, Lindell & Brandt 1997, Lindell *et al.* 1999) and intra-class correlations (Bliese 2000) were assessed. Lindell *et al.*'s (1999)

Table 2: Means, standard deviations, and correlations at the subordinate level

	<i>M</i>	<i>SD</i>	1	2	3	4	5	6	7	8
1. CEO tenure	5.63	5.63	–							
2. CEO gender	–	–	0.06	–						
3. Profit	17.40	553.86	–0.10	–0.01	–					
4. Size	2.85	0.96	–0.11	–0.22***	–0.27***	–				
5. Risk	79.90	54.15	0.03	–0.06	0.00	–0.45***	–			
6. Integrity	3.74	0.41	0.01	–0.54***	0.00	0.03	0.12	(0.97)		
7. Transf. leadership	3.03	0.54	–0.03	–0.47***	–0.13*	–0.06	0.25***	0.55***	(0.96)	
8. CSR	3.73	0.87	0.05	–0.09	–0.08	–0.16**	0.18**	0.23***	0.51***	(0.92)

Notes: $n = 170$; * $P < 0.10$, ** $P < 0.05$, *** $P < 0.01$; internal consistency reliabilities are in parentheses along the diagonal.

coefficient $r_{wg(j)}^*$ was used to avoid important concerns about the mathematical underpinnings of James *et al.*'s (1984) $r_{wg(j)}$ formula. The average $r_{wg(j)}^*$ for transformational leadership across the 50 organizations was 0.70, with Intraclass Correlation Coefficient ICC(1) and ICC(2) values of 0.52 ($P < 0.01$) and 0.78 ($P < 0.01$), respectively. As a rule of thumb, an $r_{wg(j)}^*$ equal to or greater than 0.70 and ICC1 values exceeding 0.05 (Bliese 2000) are considered desirable to warrant aggregation. Aggregation of transformational leadership at the organization level was thus statistically appropriate.

Descriptive statistics

Table 2 shows that most variables in the model were significantly and positively correlated. Perceived leaders' integrity was significantly and positively associated with transformational leadership ($r = 0.55$, $P < 0.01$) and CSR ($r = 0.23$, $P < 0.01$). Transformational leadership was also significantly and positively correlated with CSR ($r = 0.51$, $P < 0.01$).

Hypothesis testing

Table 3 presents the results of the regression analysis using transformational leadership as the dependent variable and integrity as the independent variable. Results show a significant amount of variance can be explained by integrity in transformational leadership ($\beta = 0.55$, $P < 0.01$, $\Delta R^2 = 0.30$, $\Delta F(1, 161) = 69.541$, $P < 0.01$). Thus, a leader's integrity is positively related to transformational leadership, which supports hypothesis 1.

Table 3: Linear regression analysis with transformational leadership as dependent variable and integrity as independent variable

Variables	Model 1 Stand. β
Step 1	
Dependent variable: transf. leadership	
Independent variable: integrity	0.549***
R^2	0.302
Adjusted R^2	0.297
ΔR^2	0.302
ΔF	69.541***

Note: * $P < 0.10$, ** $P < 0.05$, *** $P < 0.01$.

Consistent with hypothesis 2, transformational leadership was positively linked to CSR, as shown in Table 5. Transformational leadership still accounted for a significant amount of variance in CSR even after controlling for CEO tenure and age, profit, size, risk, and industry dummy variables ($\beta = 0.47$, $P < 0.01$, $\Delta R^2 = 0.16$, $\Delta F(15, 126) = 3.361$, $P < 0.01$). These results support hypothesis 2.

To test for the mediation effects in hypothesis 3, we used the four-step procedure (shown in Tables 3–6, industry controls were omitted here in the interest of space), according to Baron & Kenny's (1986) and Krull & MacKinnon's (1999, 2001) recommendations.

In step 1 (Table 3), we found that integrity predicted transformational leadership ($\beta = 0.55$, $P < 0.01$). Results from step 2 (Table 4) indicated that integrity was significantly related to the depen-

Table 4: Hierarchical regression analysis with CSR as dependent variable and integrity as independent variable without and with control variables

Variables	Model 2 Stand. β	Model 3 Stand. β
Step 2		
Dependent variable: CSR		
Independent variable: integrity	0.236***	0.184**
Control variables:		
CEO tenure		-0.010
CEO gender		0.124
Profit		-0.218***
Size		-0.084
Risk		0.245
R^2	0.056	0.398
Adjusted R^2	0.049	0.319
ΔR^2	0.056	0.342
ΔF	8.100***	4.616***

Note: * $P < 0.10$, ** $P < 0.05$, *** $P < 0.01$.

Table 5: Hierarchical regression analysis with CSR as dependent variable and transformational leadership as independent variable without and with control variables

Variables	Model 4 Stand. β	Model 5 Stand. β
Step 3		
Dependent variable: CSR		
Independent variable: transf. leadership	0.503***	0.468***
Control variables:		
CEO tenure		0.034
CEO gender		0.221**
Profit		-0.050
Size		-0.046
Risk		-0.021
R^2	0.253	0.417
Adjusted R^2	0.248	0.343
ΔR^2	0.253	0.164
ΔF	37.748***	2.361***

Note: * $P < 0.10$, ** $P < 0.05$, *** $P < 0.01$.

dent variable, CSR, even after controlling for CEO tenure and age, profit, size, risk, and industry dummy variables ($\beta = 0.18$, $P < 0.05$, $\Delta R^2 = 0.34$, ΔF (15, 122) = 4.616, $P < 0.01$). Step 3 (Table 5) shows

Table 6: Hierarchical regression analysis with CSR as dependent variable, integrity as independent variable, and transformational leadership as mediator without and with control variables

Variables	Model 6 Stand. β	Model 7 Stand. β	Model 8 Stand. β
Step 4			
Dependent variable: CSR			
Independent variables:			
Integrity	0.236***	0.184**	0.080
Transformational leadership			0.380***
Control variables:			
CEO tenure		-0.010	0.291
CEO gender		0.124	0.251**
Profit		-0.218***	-0.160**
Size		-0.084	-0.047
Risk		0.184**	-0.024
R^2	0.056	0.398	0.448
Adjusted R^2	0.049	0.319	0.371
ΔR^2	0.056	0.342	0.051
ΔF	8.100***	4.616***	11.136***

Note: * $P < 0.10$, ** $P < 0.05$, *** $P < 0.01$.

that the mediator variable, transformational leadership, was significantly related to the dependent variable, CSR, even after controlling for CEO tenure and age, profit, size, risk, and industry dummy variables ($\beta = 0.47$, $P < 0.01$, $\Delta R^2 = 0.16$, ΔF (15, 126) = 2.36, $P < 0.01$). Finally, step 4 shows that once the effect of transformational leadership was controlled for, the relationship between integrity and CSR weakens and is no longer significant ($\beta = 0.08$, $P = 0.387$), as shown in Table 6.

The Sobel test was used to investigate whether indirect effects were significant. If this turned out to be the case, the addition of transformational leadership to the model would significantly decrease direct effects of integrity. The findings demonstrated that integrity had an indirect effect through transformational leadership on CSR ($z = 2.31$, $P < .05$). Therefore, we concluded that hypothesis 3 was also supported, providing evidence that transformational leadership mediates the relationship between ethical integrity and CSR.

Table 7 reports the regression results with all the control variables, including the industry dummy

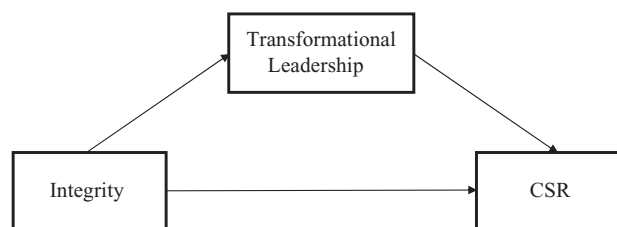
Table 7: Complete model with CSR as dependent variable, integrity as independent variable, transformational leadership as mediator, and all control variables (including industry dummy)

Variables	Stand. β
Dependent variable: CSR	
Independent variables:	
Integrity	0.080
Transformational leadership	0.380***
Control variables:	
CEO tenure	0.291
CEO gender	0.251**
Profit	-0.160**
Size	-0.047
Risk	-0.024
Ind. dummy const.	0.176**
Ind. dummy DGM	-0.022
Ind. dummy NGM	0.394***
Ind. dummy CPH	0.235***
Ind. dummy MI	0.208**
Ind. dummy EI	0.311***
Ind. dummy TE	0.260***
Ind. dummy TS	0.284
Ind. dummy Tel.	0.201**
Ind. dummy WR	0.228**
R^2	0.448
Adjusted R^2	0.371
ΔR^2	0.051
ΔF	11.136***

Notes: * $P < 0.10$, ** $P < 0.05$, *** $P < 0.01$; dependent variable: CSR; omitted industry: services; industry dummies: construction, durable goods manufacturing, nondurable goods manufacturing, chemicals and pharmaceutical, metal industries, electronic equipment, transportation equipment, transportation services, telecommunications, wholesale and retail.

variables. The results suggest that industry plays an important role in shaping CSR. Several of the industries in the sample explain a significant amount of variance, such as construction, nondurable goods manufacturing, chemicals and pharmaceuticals, metal industries, electronic equipment, transportation equipment, telecommunications, and wholesale and retail. For example, consumer awareness of the negative effects of CO₂ emissions is influencing strategic decisions in the automotive and transportation industries. Indeed, automotive firms have decided to launch low emission vehicles to gain a competitive edge. Similarly, several firms in the construction

Figure 1: Hypothesized research model



business are using energy-efficiency equipment and renewable energy, beyond what was required by legislation, also to gain a competitive advantage. When firms communicate best practices in industry forums, conferences, and workshops in general, they are also setting an example and an agenda for other firms to follow.

Figure 1 shows that transformational leadership (i.e. mediator) predicts the adoption of CSR practices (i.e. dependent variable) while controlling for the leader's integrity (i.e. independent variable). Therefore, findings suggest that transformational leadership mediates the relationship between a leader's integrity and the adoption of CSR practices by their organizations.

Discussion

This study investigated (1) the relationship between integrity and transformational leadership behavior, (2) the relationship between transformational leadership and CSR, (3) and the mediating role of transformational leadership between integrity and CSR. Findings present empirical support that links integrity with transformational leadership, thereby reinforcing the notion that transformational leaders have a moral dimension, act as role models of ethical behavior, and contribute to an ethical climate in the organization (e.g. Parry & Proctor-Thomson 2002, Turner *et al.* 2002, Mayer *et al.* 2009, 2010, van Aswegen & Engelbrecht 2009).

The results further demonstrate that transformational leadership is associated with CSR. CEOs exhibiting transformational leadership behaviors inspire followers and promote a common vision of value creation in the organization and to its stakeholders. These findings add to existing theory in the

literature and contribute much-needed empirical evidence of the role leadership plays in formulating and implementing CSR strategies (Waldman *et al.* 2006a, Waldman & Siegel 2008).

In addition, the mediating role of transformational leadership between leader's integrity and CSR offers two important theoretical contributions. First, the fact that CEOs with high levels of integrity were rated as more engaged in CSR sheds some light on the debate whether leaders' integrity affects decisions regarding CSR, an ongoing conversation between the theory of the firm perspective and the stakeholder approach. The firm perspective advocates that firms engage in CSR for profit-maximization, based on the assumption that firms are socially responsible because they anticipate benefits like increased corporate reputation, easier access to capital markets, increased ability to attract and retain talent, and charge a premium price for their products, while managing the additional costs associated with CSR (McWilliams & Siegel 2000, 2001, McWilliams *et al.* 2006, Waldman & Siegel 2008). On the other hand, the stakeholder approach goes beyond the firm profit maximization function and includes a broader vision, where managers have to balance the interests and claims of multiple stakeholder groups. In sum, the stakeholder theory is distinct because it articulates the moral obligations of managers applied to all parties concerned – carefully balancing their interests – and irrespective of who is holding the power, acting as moral principles in decision-making processes (Freeman 1984, 1994, Marens & Wicks 1999, Agle *et al.* 2008, Harris & Freeman 2008).

Second, the mediating role of transformational leadership might explain why leaders with high levels of integrity engage in CSR practices. Leaders rely on moral values to influence and change followers' core attitudes and values. Transformational leadership behaviors include acting ethically, creating a favorable climate for followers to question their own values and beliefs, empowering followers to make their own decisions, motivating and inspiring followers to embrace change, and engaging in virtuous acts or behaviors that benefit others. By actively engaging in these behaviors, leaders increase their own social responsibility and propensity to follow CSR practices. These findings indicate that integrity matters,

as transformational leaders are more likely to behave 'responsibly' by implementing CSR practices.

Practical implications

Organizations often focus on attracting leaders who excel in technical and managerial skills. However, it is also critical to attract leaders who can distinguish right from wrong and lead the organization through a process of social and ethical change to become more socially responsible. The findings of this study could help organizations improve their selection processes for leaders that display strengths in both integrity and transformational leadership attributes in order to benefit from it. For example, they could use selection tools to assess integrity, moral standards, and concern for others, selecting people who demonstrate high levels of integrity, namely those who have the potential to become transformational leaders. Organizations can also train leaders to serve as role models and be supportive of more ethical behavior for all employees.

In addition, organizations can introduce transformational leadership programs to develop and shape their leaders' behaviors. As several empirical studies have demonstrated, transformational leaders will benefit individuals and organizations as a whole, as this style of leadership has a significant impact on teams and organizational performance (Seltzer & Bass 1990, Mackenzie *et al.* 2001, Wofford *et al.* 2001, Jung & Sosik 2002). Thus, organizations should focus on this leadership style rather than autocratic leadership. Despite empirical evidence that shows an association of autocratic leadership with CSR (Angus-Leppan *et al.* 2010), no link is found between this leadership style and employees' extra effort and firm performance (de Luque *et al.* 2008).

In sum, this study provides meaningful implications for corporate leaders, contributing to a better understanding of the underlying relationship between integrity and transformational leadership, and drawing attention to the practical benefits of these dimensions at the corporate level.

Strengths, limitations, and future research

The current study adds to the understanding of transformational leadership theory and helps iden-

tify drivers for CSR. Another contribution of this research is the empirical support for the mediating role of transformational leadership between integrity and CSR. Same-source bias was controlled as perceptual measures come from an average of three direct followers per CEO, resulting in less bias than self-report measures (Avolio *et al.* 1991). Finally, sample organizations represented a variety of industries and diversified organizational contexts.

Nevertheless, some limitations of this research should be acknowledged. First, the fact that only 50 organizations participated in the study limits the generalizability of conclusions. Second, the cross-sectional nature of the study does not consider the dynamic nature of the leadership relationship. Third, there are some validity concerns with the single-method approach used in this study. Therefore, future research could benefit from using longitudinal data collection procedures and a mixed methods approach, combining qualitative and quantitative studies. Fourth, the perceptual measure of ethical integrity used may be problematic as followers may be in different stages of ethical development and thus see CEO behavior from a completely different ethical perspective. Fifth, the ethical climate of the organization was not accounted for. Some authors (e.g. Mayer *et al.* 2009, 2010, van Aswegen & Engelbrecht 2009) argue that an organization's climate may help explain the strategic orientation of the organization and the mechanisms that link ethical leaders to social responsibility organizations. Finally, although rated by several senior managers per organization, CSR was a perceptual variable. In the future, we advise the inclusion of objective measures of corporate social performance.

Conclusion

This paper has revisited the debate on whether leader integrity influences the corporate decision-making process toward social responsibility. Examples from the real world illustrate that unethical behavior from senior managers eventually affects the long-term survival of corporations. Results from this study suggest that integrity is significant for transformational leaders who are likely to behave responsibly by implementing CSR strategies.

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